

Q2 2013

88.1

Previous= 89.81 2007 = 100

Sales Tax

100.3

TOT Tax

111.5

Building Permits Issued

53.0

Employment

95.4

Housing Prices

80.1

Chico Business Confidence Survey:

58.5

0-100 scale

Previous = 64.6

To participate in the

<u>Chico Business Confidence</u> <u>Survey</u>

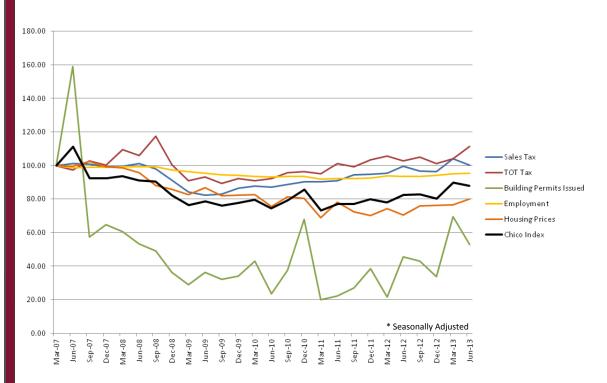
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Real. Local. Community Banking.

Chico Economic Index & Business Confidence Survey September 2013



Our Chico Economic Index slipped a bit from 89.81 in the first quarter of 2013 to 88.05 in the second quarter (2007 = 100), but is still on a solid upward trend since the first quarter of 2011 where it troughed at 73.19. Overall this quarter, I would have to say it was mixed results, with two categories down and three up. When looking back a few quarters it's not hard to make the conclusion that the second quarter being slightly down may be more a result of the first quarter being very strong with a 9.5 point jump, the largest in two years. The Index is still up significantly from the 80.31 of just two quarters ago.

Our Chico Business Confidence Survey took a notable drop to 58.5 from 64.6 last quarter. Anything over 50 indicates a positive outlook but the 6 point drop is significant. Overall the movement in the Survey was from more optimistic answers ("strongly increase", "moderately increase", etc.) to the "Stay the same" category. Our respondents as a whole are not as positive as they were last quarter but overall haven't turned negative about the recovery . . . yet. Since this is just our second survey it's still too early to spot a trend but I must admit that the optimism of last quarter is dampening.

For FLASH reports of the individual index components go to our website at www.GoldenValleyBank.com/EconomicForecast.aspx

Mark Framer

Mark Francis
President and CEO

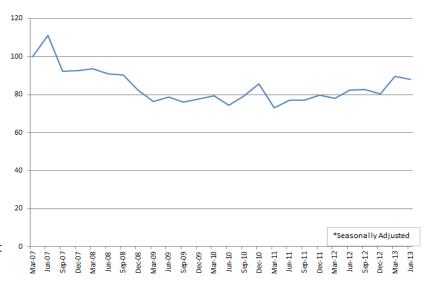




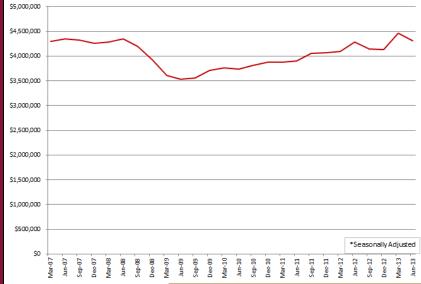
Chico Economic Index - 88.1

We made a change to the Employment calculation this and all prior quarters to reflect jobs in the Chico MSA rather than unemployment. This changed all preceding period numbers but the trends remained very similar.

Two reasons for the decline this quarter – sales tax and building permits. Both those categories took mighty jumps in the first quarter but were off of those highs in the second quarter, although still trending up over the long term. Employment, housing and TOT were all up, but not quite enough to offset the sales tax and building permit declines, but they were up, continuing their prior trends. Building permits have shown a lot of vol-



atility over the last several quarters and the decline this quarter was almost predicable after the big jump in the 1st quarter. The same might be said about sales taxes, albeit on a smaller scale. Overall, considering the big jump in the Index in the last quarter, this quarter wasn't too bad.



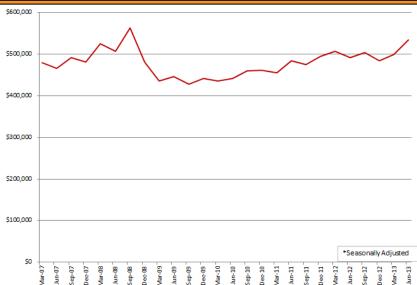
Sales Tax

Sales tax came in at a robust \$4.394 million in the second quarter, the highest it's been since the 4th quarter of 2007. Sounds great and is great, however from a seasonal perspective and especially when looking at the last six years worth of data, we would have expected it to be higher. Normally there is a big jump in the number from the first quarter to the second quarter; last year it was 15.1%. This year it was just 6.4% with the average over the last six years at 11.4%. We don't want to douse anyone's fire because it's still a good number but perhaps what we are seeing here is the same type of easing observed nationally.

Transient Occupancy Tax

It's good to be in the hotel industry in the Chico

MSA! Transient Occupancy Taxes (TOT) collected
were the second highest in the last 7 years and a
big jump from the 1st quarter. This upward
movement continues a trend we've seen since
the 4th quarter of 2009. The second quarter includes CSUC graduation, but we've seasonally
adjusted that out so it was truly a great quarter
for the local hotels. TOT, at 111.5 (2007 = 100)
continues to be the bright spot in the Chico Economic Index.



2nd Quarter 2013

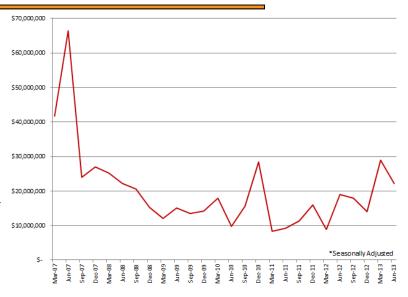


Employment

By popular demand, we've flipped the Employment Index to focus on the number of jobs in the Chico MSA instead of the percent unemployed. When looked at closely, the <u>unemployment</u> figures don't reflect a true picture with many variables affecting the outcome. And after all, isn't the number <u>employed</u> more important? Most of you think so. The Chico MSA is still down about 3,800 jobs from the most recent quarterly average, seasonally adjusted peak in June of 2008. We are definitely rebounding from the low in March of 2011 but we still have a ways to go. At the current pace of job growth it will take us another two and a half years to get back to where we were in 2008.

Building Permits Issued

Building permits in Chico are off a bit from Q1/13 but the trend is still up, and has been since Q1/11. At just over \$25 million it was the 4th highest quarter in the last 6 years. Residential construction is pushing the number and we think we have all seen the increase in activity. There is some real optimism on the east side with Tom Fogarty building 70+ lots up Highway 32 near the old Humboldt Road burn dump.



\$350,000 \$350,000 \$250,000 \$150,000 \$5150,000

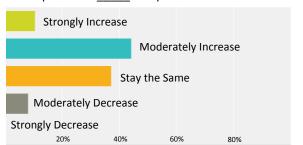
Average Housing Prices

As expected, the second quarter average housing prices continued their upward march since bottoming out a little over two years ago. The average price jumped to a seasonal \$271,747 from \$259,232 last quarter, a 19% annualized increase. Sales continued at a brisk pace with 350 in the Chico MLS in the quarter. This compares with 301 for the same quarter a year ago and 252 in the second quarter of 2011. Clearly demand is pushing up prices and low interest rates didn't hurt. The question now becomes what happens to the market with rates up about 1% and housing prices up 20%?

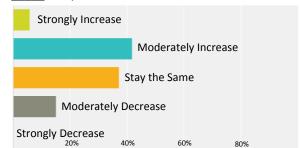


Chico Business Confidence Survey

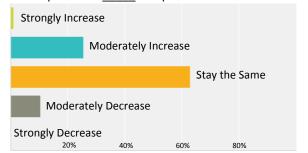
Q1: Over the next 12 months my firm's top line sales volume is expected to _____ compared to the last 12 months.



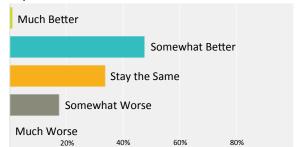
Q2: Over the next 12 months my firm's profit is expected to _____ compared to the last 12 months.



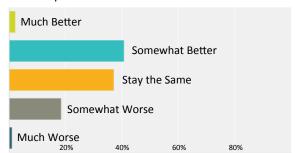
Q3: Over the next 12 months my firm's level of employment is expected to _____ compared to the last 12 months.



Q4: How do you think general business conditions in Chico / Butte County will change over the next 12 months compared to the past 12 months?



Q5: How do you think general business conditions in the United States will change over the next 12 months compared to the past 12 months?



Chico business owners and managers aren't as confident in the prospects for their own businesses and the local and national economies as they were last quarter with a big drop in our Survey from **64.6** to **58.5**.

About 55% of our respondents expect their top line sales volume to moderately or strongly increase over the next 12 months. That's a significant decline from the 73% last quarter. 47% expect their profits to increase either moderately or strongly over the next year. Again, a big decline from the 68% last quarter. Most of the folks who were optimistic last quarter haven't grown pessimistic, but are expecting sales and profits to stay the same compared to the last 12 months.

That shift from optimism to "stay the same" flows over to our respondents feelings about the local and national economies. About 49% think that the local economy will do either "much better" or "somewhat better" this quarter compared to over 65% last time. Their feelings about the national economy are a bit worse with 43% in the "better" columns compared to 55% last time.

Prospects for new employment hasn't changed much since last quarter with 63% of the respondents indicating that they won't be increasing or decreasing their workforce over the next 12 months, compared to 65% last quarter. About 27% of our Survey is telling us that they DO plan to increase their staff in the next year, pretty much the same as last quarter. Just over 10% plan to shrink their number of employees, up from just over 2% last time. Overall, with 27% increasing their staff, 10% shrinking and the remaining 63% staying where they're at, we should continue to see more people working as we look ahead.

Hot Topic!

When asked how confident they are that the City can right it's financial ship in 2-3 years, more than twice as many folks, over 51%, were not confident versus just 23% who were.

